7 Keys to Authentically Investing in Diverse Start-ups

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Around the 1920s, Harlem, New York was the center of an intellectual and cultural revival of Black music, dance, art, fashion, literature, theater and politics. The renaissance of Black culture was intertwined with a vibrant Black economy, which demonstrated the resiliency of the Black community in the wake of countless racial atrocities, such as the 1921 Tulsa Massacre.

One hundred years later, many in the Black business community across the country are seeking to usher in a new renaissance in response to the racial unrest of 2020 and the lingering effects of the Covid-19 pandemic. Today, Black culture is alive and well (and still a huge driver of economic opportunity). One major difference, however, is that there is an increased level of recognition by non-Blacks of entrenched racial disparities, largely attributable to the efforts of social justice movements like Black Lives Matter.

For entrepreneurs of all backgrounds, there is hope that current social movements can transcend a fleeting moment and stimulate institutionally supported business inception and growth for generations. There's cautious optimism that the billions of dollars in commitments made by large institutions this time around are more than PR window dressings. A belief

exists that the movement can be enduring, and change measurable.

But it all comes down to execution.

For institutions, investors and entrepreneurs to effectively ignite the fire of a burgeoning economy with diversity, equity and inclusion (DEI) as a catalyst, they must do more than make vague pronouncements about financial commitments targeting change decades from now. They must build their organizations into institutions that can understand the unique needs of the owners of businesses they look to nurture. There is a need for comprehensive support beyond raising capital, extending throughout the company growth process. And companies and investors must utilize the profits they generate to reinvest in the communities they ultimately seek to improve.

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Here are seven keys to authentically investing in diverse startups:

1. **Focus on the opportunity:** McKinsey notes that parity for Black business owners alone would create $1.6 trillion of annual GDP growth. A culturally competent investment strategy should be rooted in the optimism of the still largely untapped potential of underestimated founders. But the well must be full to draw water, and in order to leverage and tap into this potential, the investment community must make diversity-informed investing a dedicated focus.
2. **Make diversity a business objective:** Investment institutions should evolve their thinking regarding diversity from a compliance or philanthropic mindset to a core business strategy. Deployment of capital to diverse businesses should be rigorously tracked to drive accountability and transparency. Compensation should be tied to achieving DEI objectives that motivate employees

to embed diversity in all aspects of a business.

3. **Adjust your risk models:** Investors can unlock untold hidden gems by creating new models for assessing the perceived risk surrounding diverse entrepreneurs. Some investors have no problem thinking outside of the box when it comes to imagining use cases for exotic investments like coins and NFTs. Investors should employ similar creativity when evaluating businesses that can genuinely connect with diverse communities representing trillions of dollars of spending power. Less focus should be placed on track records, given that certain groups of people are systematically excluded from pedigree-building opportunities. Instead, investors should look at intangibles, such as grit and creativity (especially in the midst of uncertainty), which are hallmarks of successful leaders and qualities that diverse founders have in droves.
4. **Hire and elevate diverse voices:** To build authentic and fruitful relationships with diverse entrepreneurs, it is imperative to have diverse members on your investment teams and portfolio company boards. Diverse voices can highlight blind spots in your investment analyses and identify new metrics for evaluating diverse founders who do not fit the conventional mold. The presence of someone from a similar demographic can also help business owners be more at ease with their investors and better able to drown out unhelpful historical narratives that can breed mistrust.
5. **Broaden the definition of investment:** It is easy to equate the definition of investment with monetary capital. However, companies created by Black founders tend to reside in more localized communities, with lower household incomes and smaller support networks. Even more critical to their long-term success are supportive advisory teams. It is thus important that those who invest capital into these diverse companies provide a human capital investment as well.

6. **Partner with committed organizations:** Partnering with organizations that are laser-focused on unlocking the potential of underrepresented founders can greatly enhance ROI. For instance, companies supported by 1863 Ventures, an organization focused on creating $100 billion of wealth in the Black community through entrepreneurship, experienced only a 7.5% closure rate during the 2020 height of the COVID pandemic, compared with the national average for Black companies of 41% and for all companies of 28%.
7. **Reinvest in the communities you seek to benefit:** Companies must create a comprehensive strategic plan for reinvesting back into the ethnic communities they are targeting. It is important that profits are intentionally directed back into the communities they serve, with key components of that including hiring, education and infrastructure. Such investment can transform impoverished communities – where residents experience food, health and education deserts – into thriving middle-class enclaves.

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Technology has the power to continue to break down barriers to entry and cultural divides. The capital and supporting resources are available to flip the script on racial and other inequities and new generations of business owners and employees are eager to see meaningful social change in their lifetimes. Yet to authentically create and scale ethnically diverse economies, we must amend the framework for how we invest in them. With equality comes the potential for sustainable social and economic change. The gauntlet has been thrown, but the question remains – how badly do we want to win collectively?

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